

FEDERAL RESERVE SYSTEM

Capital City Bank Group, Inc.
Tallahassee, Florida

Capital City Bank
Tallahassee, Florida

Order Approving the Merger of Bank Holding Companies, Merger of Banks, and Establishment of Branches

Capital City Bank Group, Inc. (“Capital City”), a financial holding company within the meaning of the Bank Holding Company Act (“BHC Act”), has requested the Board’s approval under section 3 of the BHC Act¹ to merge with First Alachua Banking Corporation (“First Alachua”), with Capital City as the surviving entity, and thereby indirectly acquire First Alachua’s wholly owned subsidiary, First National Bank of Alachua (“First National Bank”), both of Alachua, Florida. In addition, Capital City’s subsidiary bank, Capital City Bank, a state member bank, has requested the Board’s approval under section 18(c) of the Federal Deposit Insurance Act² (“Bank Merger Act”) to merge with First National Bank, with Capital City Bank as the surviving entity. Capital City Bank has also applied under section 9 of the Federal Reserve Act (“FRA”) to retain and operate branches at the locations of First National Bank’s main office and branches.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in the Federal Register (69 Federal Register 71,056 (2004)) and locally in accordance with the relevant statutes

¹ 12 U.S.C. § 1842.

² 12 U.S.C. § 1828(c).

³ 12 U.S.C. § 321. These branches are listed in the Appendix.

and the Board's Rules of Procedure.⁴ As required by the BHC Act and the Bank Merger Act, reports on the competitive effects of the mergers were requested from the United States Attorney General and the appropriate banking agencies. The time for filing comments has expired, and the Board has considered the applications and all comments received in light of the factors set forth in section 3 of the BHC Act, the Bank Merger Act, and the FRA.

Capital City, with total consolidated assets of approximately \$2.4 billion, is the 28th largest insured depository organization in Florida, controlling deposits of approximately \$1.4 billion.⁵ First Alachua, with total consolidated assets of approximately \$231.8 million, is the 111th largest insured depository organization in Florida, controlling deposits of approximately \$207 million. On consummation of the proposal, Capital City would become the 26th largest insured depository organization in Florida, controlling deposits of approximately \$1.6 billion, which would represent less than 1 percent of total deposits of insured depository institutions in the state.⁶

Competitive Considerations

Section 3 of the BHC Act and the Bank Merger Act prohibit the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant banking market. The BHC Act and the Bank Merger Act also prohibit the Board from approving a bank acquisition that would substantially lessen competition in

⁴ 12 C.F.R. 262.3(b).

⁵ Asset data are as of December 31, 2004, and deposit data and statewide ranking data are as of June 30, 2004. Ranking data are adjusted to reflect merger and acquisition activity through March 4, 2005.

⁶ In this context, the term "insured depository institutions" includes insured commercial banks, savings banks, and savings associations.

any relevant banking market unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.⁷

Capital City Bank and First National Bank compete directly in the Gainesville and Palatka banking markets in Florida.⁸ The Board has carefully reviewed the competitive effects of the proposal in these banking markets in light of all the facts of record, including the number of competitors that would remain in the markets, the relative shares of total deposits in depository institutions in each market (“market deposits”) controlled by Capital City Bank and First National Bank,⁹ the concentration level of market deposits and the increase in this level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),¹⁰ and other characteristics of the markets.

⁷ See 12 U.S.C. § 1842(c)(1); 12 U.S.C. § 1828(c)(5).

⁸ The Gainesville banking market is defined as Alachua, Gilchrist, and Levy Counties. The Palatka banking market is defined as Putnam County and the town of Hastings in St. Johns County.

⁹ Deposit and market share data are as of June 30, 2004, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

¹⁰ Under the DOJ Guidelines, a market is considered moderately concentrated if the post-merger HHI is between 1000 and 1800, and a market is considered highly concentrated if the post-merger HHI is more than 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally will not be challenged (in the absence of other factors indicating

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Guidelines in the Gainesville banking market. This banking market would remain moderately concentrated, and the post-merger HHI would increase by 67 points to 1,293. Fourteen competitors would remain in the banking market.¹¹

In the Palatka banking market, the HHI would slightly exceed DOJ Guidelines on consummation. Capital City Bank is the fifth largest depository institution in the market, controlling approximately \$63.8 million in deposits, which represent approximately 13.5 percent of market deposits. First National Bank is the sixth largest depository institution with deposits of approximately \$42.7 million, which represent approximately 9 percent of market deposits. On consummation of the merger, Capital City Bank would become the largest depository institution in the market, controlling deposits of approximately \$106.5 million, which represent approximately 22.5 percent of market deposits. The HHI would increase by 242 points to 1808.

anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. The DOJ has stated that the higher than normal HHI thresholds for screening bank mergers and acquisitions for anticompetitive effects implicitly recognize the competitive effects of limited-purpose and other nondepository financial entities.

¹¹ Capital City Bank operates the seventh largest depository institution in the market, controlling deposits of approximately \$148.1 million, which represent approximately 5.5 percent of market deposits. First National Bank operates the fifth largest depository institution in the market, controlling deposits of approximately \$164.3 million, which represents approximately 6.1 percent of market deposits. On consummation of the proposal, Capital City Bank would become the third largest depository institution in the market, controlling deposits of approximately \$312.4 million, which represents approximately 11.6 percent of market deposits.

In reviewing the competitive effects of this proposal, the Board has considered that several factors appear to mitigate the likely effect of the proposal on competition in the Palatka banking market. The Palatka banking market has five commercial banking organizations and one thrift organization that would remain in the market after consummation. Two commercial bank competitors each would control approximately 20 percent of market deposits and local branch networks as large as Capital City's.

The Board also has considered that this banking market has two active community credit unions in Palatka that offer a wide range of consumer banking products. The First Coast Community Credit Union controls \$45.9 million in deposits in the Palatka banking market, and the Putnam County Federal Credit Union controls \$22.5 million in deposits in the market. Almost all residents in the Palatka banking market are eligible for membership in each credit union, and both credit unions operate street-level branches with drive-up service lanes. The Board concludes that these credit unions exert a competitive influence that mitigates, in part, the potential anticompetitive effects of the proposal.¹²

The Board concludes that the foregoing considerations, including the presence of two accessible credit unions, the number and size of competitors that would remain in the Palatka banking market after consummation, and other factors,

¹² The Board previously has considered the competitiveness of certain active credit unions as a mitigating factor. See F.N.B. Corporation, 90 Federal Reserve Bulletin 481 (2004); Gateway Bank & Trust Co., 90 Federal Reserve Bulletin 547 (2004). With deposits of these credit unions included at 50 percent, Capital City Bank would be the fifth largest of nine depository institutions in the market, with approximately 12.6 percent of market deposits, and First National Bank would be the sixth largest depository institution in the market, controlling approximately 8.4 percent of market deposits. On consummation of the proposal, Capital City Bank would be the largest depository institution in the market with deposits of approximately \$106.5 million or approximately 21 percent of market deposits. The HHI would increase by 211 points to 1598.

mitigate the transaction's potential anticompetitive effects. The DOJ has advised the Board that consummation of the proposal is not likely to have a significantly adverse competitive effect in the Palatka banking market. The Board also has received no objections to the proposal from the other federal banking agencies.

Based on all the facts of record, the Board concludes that consummation of the proposed transaction would not likely result in a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market and that competitive factors are consistent with approval.

Financial and Managerial Resources and Supervisory Considerations

In reviewing the proposal under section 3 of the BHC Act, the Bank Merger Act, and the FRA, the Board has carefully considered the financial and managerial resources and future prospects of the companies and depository institutions involved in the proposal and certain other supervisory factors. The Board has considered these factors in light of all the facts of record including, among other things, confidential reports of examination and other supervisory information received from the federal and state banking supervisors of the organizations involved, publicly reported and other financial information, and information provided by the applicants.

In evaluating financial factors in expansion proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary banks and significant nonbanking operations. In this evaluation, the Board considers a variety of areas, including capital adequacy, asset quality, and earnings performance. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important. The Board also evaluates the financial condition of the combined organization,

including its capital position, asset quality, and earnings prospects and the impact of the proposed funding of the transaction.

Based on its review of these factors, the Board finds that Capital City has sufficient financial resources to effect the proposal. The transaction would be effected through a combination of cash and an exchange of shares. Capital City would fund the cash consideration by issuing trust preferred securities.

Capital City and Capital City Bank are well capitalized and would remain so on consummation of the proposal.

The Board also has evaluated the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of Capital City, First Alachua, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experience and that of the other relevant banking supervisory agencies with the organizations and their records of compliance with applicable banking law. The Board also has considered Capital City's plans to integrate First Alachua and First National Bank and the proposed management, including the risk-management systems, of the resulting organization.

Based on all the facts of record, the Board has concluded that the financial and managerial resources and future prospects of the organizations and the other supervisory factors involved are consistent with approval of the proposal.

Convenience and Needs and Other Considerations

In acting on the proposal, the Board also must consider its effects on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the Community

Reinvestment Act (“CRA”).¹³ Capital City Bank received an overall rating of “satisfactory” at its most recent CRA performance evaluation by the Federal Reserve Bank of Atlanta, as of November 17, 2003. First National Bank also received a “satisfactory” rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of October 7, 2002. The Board notes that the proposal would provide the combined entity’s customers with access to a broader array of products and services in expanded service areas, including access to expanded branch and automated teller machine networks. Based on all the facts of record, the Board concludes that the considerations relating to the convenience and needs of the communities to be served and the CRA performance records of the institutions involved are consistent with approval of this proposal.

As previously noted, Capital City also has applied under section 9 of the FRA to establish branches at the locations listed in the Appendix. The Board has assessed the factors it is required to consider when reviewing an application under section 9 of the FRA, including section 208.6 of the Board’s Regulation H, which implements section 9(4) of the FRA, and finds those factors to be consistent with approval.¹⁴

Conclusion

Based on the foregoing and all facts of record, the Board has determined that the applications should be, and hereby are, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act, the Bank Merger Act, and the FRA. The Board’s approval is specifically conditioned on compliance by

¹³ 12 U.S.C. § 2901 et seq.

¹⁴ 12 U.S.C. § 322; 12 C.F.R. 208.6(b).

Capital City with the conditions imposed in this order, the commitments made to the Board in connection with the applications, and receipt of all other regulatory approvals. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposed transactions may not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such period is extended for good cause by the Board or the Federal Reserve Bank of Atlanta, acting pursuant to delegated authority.

By order of the Board of Governors,¹⁵ effective April 28, 2005.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁵ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

APPENDIX

Addresses of Main Office and Branches in Florida to be Acquired by Capital City

Alachua

15000 N.W. 140th Street

Gainesville

4000 N. Main Street

6360 N.W. 13th Street

4040 N.W. 16th Boulevard

4041 N.W. 37th Place, Suite A

Hastings

207 N. Main Street

High Springs

660 N.E. Santa Fe Boulevard

Jonesville

14009 W. Newberry Road

Newberry

24202 W. Newberry Road, Suite F